

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF DELAWARE**

<b>IN THE MATTER OF INTEGRATED</b>	<b>)</b>	
<b>RESOURCE PLANNING FOR THE</b>	<b>)</b>	
<b>PROVISION OF STANDARD OFFER</b>	<b>)</b>	
<b>SUPPLY SERVICE BY THE DELMARVA</b>	<b>)</b>	
<b>POWER &amp; LIGHT COMPANY UNDER 26</b>	<b>)</b>	
<b>DEL. C. SECTION 1007(c) &amp; (d): REVIEW</b>	<b>)</b>	<b>PSC DOCKET NO. 06-241</b>
<b>AND APPROVAL OF THE REQUEST FOR</b>	<b>)</b>	
<b>PROPOSALS FOR THE CONSTRUCTION</b>	<b>)</b>	
<b>OF NEW GENERATION RESOURCES</b>	<b>)</b>	
<b>UNDER 26 DEL. C. SECTION 1007(d)</b>	<b>)</b>	

**SUPPLEMENTAL COMMENTS OF NRG ENERGY, INC. ON REPORTS ON  
EVALUATION OF BIDS RECEIVED IN RESPONSE TO REQUEST FOR  
PROPOSALS FOR COMPETITIVE POWER SUPPLY BY DELMARVA POWER  
& LIGHT COMPANY**

**I. INTRODUCTION**

On February 21, 2007, Delmarva Power & Light Company (“Delmarva” or “DP&L”) issued a report (“DP&L Report”) on its evaluation of bids received in response to its Request for Proposals (“RFP”) in Docket No. 06-241. On the same date, the consulting team of New Energy Opportunities, Inc.; La Capra Associates, Inc.; Merrimack Energy Group, Inc. and Edward L. Selgrade, Esq. (together, the “Independent Consultant” or “IC”) issued its report (the “IC Report” and together with the DP&L Report, the “Reports”) on Delmarva’s RFP evaluation in Docket No. 06-241. NRG Energy, Inc. (“NRG”), a bidder in the subject RFP, issued a set of preliminary comments on the Reports on March 1, 2007. In addition, the Independent Consultant issued on April 4, 2007 its Interim Report on Delmarva Power IRP in Relation to RFP (the “Interim IRP Report”), which NRG has now had the opportunity to preliminarily review.

Set out herein for consideration by the Delaware Public Service Commission (“PSC” or the “Commission”), the Delaware Office of Management and Budget, the Delaware Energy Office and the Delaware Controller General (collectively, the “State Agencies”) are the supplemental comments of NRG regarding the RFP evaluation process, the Reports and subsequent discussions and NRG’s initial comments on the Interim Report.

In our preliminary comments, we highlighted the fundamental flaws in the analysis underpinning the Reports that led to conclusions that fail to benefit the people of the State of Delaware and Delmarva’s customers by ranking most highly a small combined cycle gas plant proposed by a Delmarva affiliate. In so doing, we questioned the criteria and weighting that were used to evaluate bids, and provided detailed critiques of the methodology employed by DP&L and the IC. We raised concerns that the process to date lacks transparency and has allowed Delmarva to guide the analysis in such a way as to reach the outcome that it desires. These fundamental flaws effectively allow Delmarva to undermine the objectives laid out in the Electric Utility Retail Customer Supply Act of 2006 (“EURCSA” or the “Act”).<sup>1</sup>

Subsequent information provided by the IC and Delmarva reinforces our earlier position that Delmarva wishes to end this process as quickly as possible, without the dialogue and transparency mandated by the legislators of the State of Delaware when looking at new generation within the State. Whereas Delmarva has emphasized what it sees as consistency between the two Reports thereby justifying its conclusions, the IC has

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<sup>1</sup> 26 Del. C. § 1007. As NRG has mentioned previously, the Act expressed concerns with excessive reliance on purchases of electric power from wholesale markets or natural gas-fired generators, both of which represent the core features of the highest-ranking bid by Conectiv. Moreover, the Act specifically notes the importance of innovative technology and the possible use of IGCC for the clean combustion of coal – both offered by NRG’s proposal. See 26 Del. C. §1007(b)(1) b. 1 and §1007(d)(1) a. 1.

stressed the need for further study that might remedy some of the analytical obstacles created by time constraints. Further, in the Interim Report, the IC specifically highlights Delmarva's clear predisposition against bids submitted in the RFP.<sup>2</sup> NRG commends the IC for continuing its studies in the face of strong resistance by Delmarva to the RFP process and continue with its current practice of reliance on the Standard Offer Service ("SOS") bidding process and DSM implementation, but cautions the Commission that such further analysis is only worthwhile to the extent that NRG's prior comments, as supplemented hereby, are incorporated in a revised review of the bids submitted under the RFP.

In particular, there are several additional issues that we wish to bring to the Commission's attention in connection with the Reports and subsequent presentations by Delmarva and the IC. Specifically, NRG notes that (1) Delmarva's and the IC's scoring reflects a bias towards further purchases in the wholesale markets from unidentified generation sources which is contrary to the intent and purpose of the Act and may create unintended environmental consequences; and (2) certain of the underlying assumptions utilized by Delmarva and ICF in their modeling, to the extent disclosed, are objectively unreasonable and therefore must be revisited in order for the RFP process to yield valuable results. More generally, there are other flaws that are easily identified in the process and the Reports which are additionally highlighted below.

## **II. RELIANCE ON MARKET PURCHASES**

### *A. More Wholesale Market Purchases Do Not Limit Volatility*

The Act was passed, in part, due to the volatility in prices experienced by SOS customers which was the result of Delmarva's reliance on a wholesale market purchasing

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<sup>2</sup> See, for example, Interim Report at 6.  
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system to meet SOS needs in a generation market priced against natural gas generators. In response to that volatility and in spite of the enactment of EURCSA, Delmarva insists on continuing with business as usual in contracting for power through wholesale market purchases. To the extent that these market purchases actually rely on generation within PJM but outside Delaware – where Delmarva affiliates own generation assets – one may legitimately question whether this advocacy for reliance on market purchases is designed primarily to serve the overall corporate objectives of the Pepco Holdings, Inc. group.

B. *Wholesale Market Purchases Do Not Have Associated and Enforceable Environmental Criteria*

In addition to leaving its customers exposed to the volatility of wholesale market prices, Delmarva, by refusing to contemplate long term power purchase agreements with in-state generators, is acting inconsistently with those provisions in the Act which seek to encourage the development of environmentally-friendly generation. Note that Delmarva does not identify the types of generation assets that will supply power for SOS customers under this regime. Hence, as there are no known environmental criteria for such purchases, DP&L fails to support the intent of EURCSA to encourage the development of plants having higher environmental standards, instead effectively advocating purchasing power for baseload needs from either gas-fired generation (with the associated price volatility) or, more likely, cheaper and less environmentally-favorable traditional pulverized coal facilities in Western PJM. Moreover, by accepting Delmarva's proposal, Delaware will lose a valuable opportunity to oversee the application of more rigorous environmental criteria with respect to generation developed within its borders. To mitigate these issues, NRG strongly supports a contract with an identified baseload generator with a known environmental profile.

C. *Bluewater Wind's Offshore Wind Farm Will Increase Reliance on Market Purchases when Compared to a Baseload Resource*

Finally, NRG would like to note that the Bluewater bid is also problematic as regards both pricing volatility and environmental impact in the context of the acquisition of replacement power. Bluewater's proposal (in common with all wind farms) cannot be relied upon as a baseload resource. If Bluewater is unable to supply power due to lower wind speeds when there is market need, DP&L will have to turn to the wholesale markets to bridge the difference. As discussed above, reliance on those markets will satisfy the RFP criteria with respect to both managing price volatility and encouraging better environmental performance.

### III. ASSUMPTIONS ON MARKET DYNAMICS

A. *The Process Still Suffers from a Lack of Transparency*

NRG remains concerned about the lack of transparency that has characterized the RFP evaluation assumptions and process. Contrary to the mandate of the legislators, DP&L has declined to share information as to how it modeled the assumptions that informed its evaluation of the bids. This lack of transparency makes it difficult for all the relevant parties (including those representing the public) to assess assumptions that, given what is known about them, seem to be deeply flawed. Delmarva has represented that its reference case economic estimate of levelized energy, capacity and REC supply costs is valued at \$85.43 per MWh (in 2005 constant dollars). NRG emphasizes that this result comes from ICF's proprietary model, the workings of which were shared only with Delmarva. The IC had no access to the model's architecture or programming, and notably did not engage in any sort of independent modeling. As such, the ICF model

represents a “black box” that serves to turn fixed assumptions – largely controlled by Delmarva – about demand growth and fuel prices into electricity prices.

As further evidence of the lack of transparency during the evaluation process, during a public session held by the PSC at Legislative Hall in Dover, the Independent Consultant Representative (the “IC Representative”) noted that time constraints precluded the possibility of carrying out a test bid. As such, “Delmarva has control over the assumptions in the model.”<sup>3</sup> The Hearing Comments further confirm the problematic nature of these assumptions. Indeed, the PSC’s comments on this issue are in line with those consistently made by NRG to date. For example, in the words of the PSC, “what we have here is some best estimate of what [market prices] might be over the next 30 years, ignorant, if you will, of real legerities [sic] in the market and what could happen to market prices in the future?”<sup>4</sup> The IC agreed with this assessment and responded that “for natural gas prices that tend to drive this, we probably would have liked to have seen a more robust set of assumptions in terms of prices being, you know, more higher than more lower than the reference kit.”<sup>5</sup> Such questionable methodological analysis makes it difficult to support the Delmarva representative’s (the “DP&L Representative”) suggestion that this process should be brought to a conclusion, based on the results of the Delmarva evaluation. Viewed in this light, Delmarva’s conclusion that NRG will cost consumers billions of dollars over the market – which served in large part as its basis for rejecting NRG’s bid – requires further investigation.

Delmarva’s recommendation to continue reliance on wholesale energy markets and to forgo contracting for new generating capacity in Delaware ultimately rests upon its

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<sup>3</sup> Transcript of Meeting of the Public Service Commission taken pursuant to notice before Renee A. Myers, Registered Professional Reporter and Notary Public, at Legislative Hall, Dover, Delaware, Tuesday, Feb. 28, 2007 (hereinafter “Hearing Comments”) at 994.

<sup>4</sup> *Id.* at 977.

<sup>5</sup> *Id.*

finding that all of the bids produce prices that exceed the reference case of expected market prices. The State Agencies need to examine this conclusion carefully. The reference case prices represent a “single point failure” for the entire RFP, in that an error in determining the reference case price may result in an erroneous conclusion to the RFP, in which very many parties have invested considerable time and money.

B. *The Market Price Delmarva Uses in its Analysis is Flawed*

NRG believes that publicly available data may serve to illuminate the invalidity of the Delmarva/ICF reference case electricity price forecasts, and in turn, seriously question Delmarva’s conclusion that no long term power purchase agreements are necessary or desirable. In the neighboring state of New Jersey, as an example of another component of the PJM market, an annual auction process is conducted whereby the state’s four electric distribution companies – Public Service Electric & Gas Company, Atlantic City Electric Company (“ACE”, an affiliate of Delmarva), Jersey Central Power & Light Company and Rockland Electric Company (“Rockland”) – entertain bids for provision of their Basic Generation Service (“BGS”) requirements. BGS is similar to the SOS that is the subject of the current RFP. Of course, the BGS bids are for a shorter period of time, but the results are notable: the lowest priced winning BGS supply bid was received by ACE, at \$0.09959 per kWh (equivalent to \$99.59 per MWh); the highest priced winning BGS supply bid was received by Rockland at the equivalent of \$109.99 per MWh. The BGS prices received by the other two electric distribution utilities fall in between these two, but in every case the BGS prices substantially exceed Delmarva’s reference price. In reaching its decision, the New Jersey Board of Public Utilities noted that prices obtained in this year’s auction will result in an overall increase in electric rates

reflecting the higher costs for both fuel as well as the additional costs companies will have to pay for capacity in the PJM transmission area to meet peak demand with a required reserve.<sup>6</sup>

As NRG has explained in its Preliminary Comments, the prices attributed by Delmarva to NRG have been inflated by a number of opaque modeling assumptions and techniques. If NRG's prices were to be recalculated by a neutral party through a transparent modeling and analytic process, NRG has confidence that its economics would compare favorably with the New Jersey BGS auction results (as a comparable pricing data point in the same electrical market as the current bids).

*C. The Load Projections Delmarva Uses in its Analysis are Flawed*

NRG would like to clarify information submitted by Delmarva before the PSC and to reiterate its concerns about flawed assumptions driving the evaluation reports. During a public session held by the PSC at Legislative Hall in Dover, the DP&L Representative noted that information in the DP&L Report was based on projections of market load out to 2015. He concluded that out of the total Delmarva zone load, the Delaware SOS residential consumers represent a "fairly insignificant size of load related to the size bids through this RFP process."<sup>7</sup> He justified this conclusion on grounds that the PJM forecast suggests that there is no generation need through 2011 on the Peninsula.<sup>8</sup> However, the DP&L Representative's comments are entirely inconsistent with the PJM Load Forecast Report prepared by the PJM Capacity Adequacy Planning Department which predicts, in the DP&L zone only, a 1.9% annual increase of summer peak load

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<sup>6</sup> New Jersey Board of Public Utilities, Press Release, New Jersey Board of Public Utilities approves result of Public Auction, Feb. 9, 2007, *available at* <http://www.bpu.state.nj.us/wwwroot/energy/BGSpr.pdf> (last visited Mar. 2, 2007).

<sup>7</sup> Hearing Comments at 994.

<sup>8</sup> *Id.*



over 10 years and of winter peak load, a 1.4% annual increase over 10 years. As evidenced by the table below, Delmarva's peak load predictions are significantly increased for both average weather conditions and 90/10 peak load forecasts as reported in the PJM Load Forecast Report January 2007.<sup>9</sup> NRG therefore questions the accuracy of Delmarva's information that serves as the basis for its assumptions in the DP&L Report and wants to ensure that the Commission has access to the relevant data from PJM.

<u>DPL Summer Peak Load Forecast</u>								
<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
4076	4166	4256	4344	4432	4490	4577	4658	4742
<u>DPL Summer 90/10 Peak Load Forecast*</u>								
<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
4304	4415	4508	4587	4674	4747	4855	4954	5048

\*The 90/10 peak load forecast equals the probability load estimates based on observed historical weather data. The median result is used as the base forecast; the values at the 10th percentile and 90th percentile are assigned to the 90/10 weather bands 10 To illustrate, in the first few days of August 2006, the actual peak load was more in the range of 95/5 causing PJM to utilize emergency procedures.<sup>10</sup>

NRG seeks clarification from Delmarva as to the source of their information on projections of baseload for the Delmarva Peninsula to ensure that its assumptions reflect market realities. Contrary to DP&L's representations in its Report, a growing load indicates that DP&L would see a need for growth in its capacity, consistent with Sussex County's clear status as one of the most rapidly growing areas in the State.

#### **IV. FURTHER COMMENTS ON THE PROCESS**

##### **A. *Bluewater***

The IC Representative's comments before the PSC underscore concerns raised by NRG with regards to the viability and financeability of the Bluewater proposal in its

<sup>9</sup> PJM Load Forecast Report, Jan. 2007.

<sup>10</sup> PJM Manual 19 Section 7, PJM Load Forecast Model.

Preliminary Comments of March 1, 2007. Specifically, the IC Representative observed that Bluewater faces substantial obstacles in obtaining greenhouse gas credits and selling RECs. As such, the financial underpinnings of this proposal are “somewhat speculative”.<sup>11</sup> In its submission of March 26, Bluewater seeks to downplay some of these financial concerns by pointing to the involvement of certain financial institutions as evidence of financial viability. In Bluewater’s words, “The repeated conclusion to many wind presentations around the US is that if Warren Buffett, – the overall most successful investor in US history and world’s [sic] second richest person – is committed to long term, stable priced wind power, it must be a good investment.”<sup>12</sup> While Mr. Buffett would no doubt be pleased to hear of the far reaching impact of his activities in this sector, Bluewater’s assertion only underscores the continued lack of hard financial data for an unprecedented project of this nature. In addition to the financial concerns, the IC also pointed out that an offshore wind project has not, to date, been implemented successfully and that the rules are still only a work in progress.<sup>13</sup> Moreover, because Bluewater’s supply would be intermittent, Delmarva has no assurances that power will be available when it is needed for the SOS load. Bluewater hastens to note that “wind is an inexhaustible and predictable source of power.”<sup>14</sup> However, the ability to predict wind patterns does not address the problem of supply. The PSC cannot discount the comments of the State Agencies’ consultant who clearly views the Bluewater offshore wind proposal as a very risky option from an execution viewpoint, meaning that it is less likely

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<sup>11</sup> Hearing Comments at 966.

<sup>12</sup> Bluewater Wind Delaware LLC (“Bluewater Wind” or “Bluewater”) Comments on the Evaluations of Proposals for Construction of New Generation by the Independent Consultant, ICF and Delmarva, Mar. 26, 2007 at 23 [hereinafter Bluewater Comments].

<sup>13</sup> Hearing Comments at 966.

<sup>14</sup> Bluewater Comments at 17.

that the project can actually be brought to fruition as proposed to actually deliver the touted benefits to Delaware.

B. *DP&L Continues to Use Misleading Assumptions in its Evaluations*

NRG continues to be concerned by the misleading information communicated by DP&L even after the release of its evaluation report. Specifically, DP&L appears to be trying, in the context of public debate, to align itself closely with the IC to add legitimacy to its conclusion that Delaware should reject all bids. NRG takes this opportunity to point out some of the discrepancies between the positions of the IC and DP&L. The DP&L Representative claimed that Delmarva's evaluation and rankings were consistent with those of the Independent Consultant.<sup>15</sup> However, the IC Representative began his presentation by noting that, while the rank order of bids was consistent with Delmarva's rank order, the analysis and conclusions were quite different.<sup>16</sup> His presentation also highlighted that the analyses differed "in various respects."<sup>17</sup>

Second, the DP&L Representative claimed that the DP&L report reflected the benefits sought by the legislation. NRG reiterates its concerns that Delmarva has failed to fully meet its obligations under the Act by giving greater weight to price and price stability (within the context of its "black box" economic modeling and flawed points allocation systems) at the expense of encouraging technological innovation and environmental benefits. It is hard to see how Delmarva can conclude that its results are consistent with the intent of the legislators, when the leading bid lacks substantial

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<sup>15</sup> DP&L Representative, Slide 1.

<sup>16</sup> Hearing Comments at 954.

<sup>17</sup> IC Representative, Slide 3.

technological innovation and exacerbates the lack of fuel diversity (with its corresponding negative effects on price stability and reliability).<sup>18</sup>

Third, the DP&L Representative highlighted the small size of the load being served through the RFP process. NRG reemphasizes its concerns raised above that Delmarva has provided misleading information in assuming that the growth of this market will remain static when, in fact, PJM has forecasted material load growth on the Delmarva Peninsula over the next 10 years.

Fourth, the DP&L Representative suggested that the technologies being proposed by NRG and Bluewater have not performed as claimed by these bidders. It is true that Bluewater's proposal for an offshore wind facility is without precedent globally, as discussed above. Indeed, there are not even regulations in place to date to govern the siting and implementation of offshore wind farms. However, NRG has successfully financed the development of capital intensive power generation projects and has earned itself a reputation in the financial community as a leader in innovative project financings. A number of coal gasification programs are in the planning stages across the country – including NRG's IGCC project proposed in New York State that was recently highlighted by Senator Hillary Clinton as precisely the type of project that this country needs to develop to address critical energy and environmental policy objectives. Furthermore, the Department of Energy has indicated its commitment to this type of power generation in a carbon-constrained future through its long-standing research on solid fuel gasification projects and geologic carbon sequestration. Many IGCC projects of scale are in successful operation world wide – particularly in Europe. It is disingenuous for Delmarva to treat the Bluewater and NRG proposals similarly in this regard when in fact

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<sup>18</sup> IC Representative, Slide 16.  
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these two technologies have quite different pedigrees and operational track records. In downplaying the merit of NRG's IGCC proposal, DP&L misses an important opportunity for Delaware to assume a leading role in technological innovation that will have significant long-term benefits and participate in leading development of exactly the type of facilities that are being lauded and actively encouraged at the highest levels elsewhere in the US.

Finally, NRG would like to return to the issue of discrepancies between the IC and DP&L by drawing attention to the DP&L Representative's conclusion. Here, he states that "[a]lthough it is important to complete the public input phase of this evaluation and defend the results, we have seen enough in our current analysis to *clearly indicate* these contracts are not in the best interest of our customers."<sup>19</sup> This conclusion stands in stark contrast to the IC Representative's emphasis on the need for additional analysis in light of the time constraints and "Delmarva/ICF control over assumptions/model."<sup>20</sup> NRG, Bluewater and other commentators on the RFP process have all raised legitimate concerns about the methodological flaws of the analysis conducted by Delmarva and by the IC in relying on Delmarva's modeling and analysis – this may in fact be the only issue upon which this disparate group has entirely unified views – from this fact alone meriting detailed further consideration. NRG has also raised concerns about biases that may have skewed the outcome in favor of an affiliate of DP&L. The Delaware legislators have insisted upon a transparent process in which stakeholders may engage the relevant parties in a constructive dialogue to reach the most effective outcome. By suggesting that the analysis is complete at this juncture, without addressing the serious

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<sup>19</sup> DP&L Representative, Slide 8 (emphasis added).

<sup>20</sup> IC Representative, Slide 11.

flaws, Delmarva thwarts both the transparency of the process and the express intentions of the Delaware legislators.

C. *The Role of Other Actors in the Evaluation Process*

The RFP process and the evaluation of the bids have sparked a lively debate that contributes to the larger discussion about the challenges in balancing both energy and environmental policy objectives. Any outcome that fails to strike such a balance – instead collapsing under the weight of public pressures and implementing a purely environmental solution – without reflecting the realities of energy market operations and pricing, does a disservice to the objectives sought to be achieved by this RFP process, as highlighted by the Legislature in the EURCSA and elsewhere. However, NRG respectfully cautions the PSC to distinguish those actors providing rigorous scientific analysis to underpin their comments from self-interested actors using flawed or inaccurate data to promote their particular agendas. Specifically, NRG was disappointed to see the recent report released before the PSC by Professors Willett Kempton and Jeremy Firestone.<sup>21</sup> Despite adopting a veneer of neutrality, it is well known that Messrs. Kempton and Firestone have long advocated offshore wind power. Messrs. Kempton and Firestone rightly point to the flawed price analysis, and suggest that the “complex and arbitrary scheme... arose because Delmarva refused to undertake the required test bid”<sup>22</sup> – concerns shared by NRG and the IC. However, after critiquing the methodology deployed in the Reports, Messrs. Kempton and Firestone turn their attention to “customer

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<sup>21</sup> Willett Kempton & Jeremy Firestone, Preliminary Review of State Agencies’ Evaluation of Proposals, Before the Public Service Commission of the State of Delaware, Mar. 5, 2007 [hereinafter Preliminary Review]. The authors of the Preliminary Review participate in a working group at the University of Delaware dedicated to the study of offshore wind power. See <http://www.ocean.udel.edu/windpower/> (last visited Mar. 6, 2007).

<sup>22</sup> *Id.* at 2.

preference” and state that “by chance, [they] have data on how Delmarva customers evaluate choices *similar* to those being considered.”<sup>23</sup> On the basis of a survey conducted *before* the RFP that uses variables that bear little relation to those that serve as the basis of the Reports (*e.g.*, IGCC was not mentioned to the survey participants), Messrs. Kempton and Firestone conclude that “Delmarva customers have *clearly* spoken their preferences [for offshore wind power] among the choices offered by the bidders.”<sup>24</sup> While the involvement of the public in this debate is key, NRG questions the value added by an unscientific survey with questionable methodological analysis conducted entirely outside of the parameters of the RFP process by actors that have consistently demonstrated their strong preference and advocacy for offshore wind.

#### D. *Shut Down of Indian River Units 1 and 2*

As mentioned in its bid, if NRG is successful in the RFP process, it has proposed decommissioning Indian River Units 1 and 2 as of the commercial operation date of the proposed IGCC facility. There is no credit given for this shutdown anywhere in the Reports. Although the existing units at Indian River are operated in accordance with all applicable environmental laws, NRG believes that the significant reductions in emissions that will result from the proposed shutdown will be a net benefit to the State for which some credit must be given in the evaluation of NRG’s bid.

### V. **ADDITIONAL COMMENTS ON THE IRP IN RELATION TO THE RFP**

The Independent Consultant correctly observes that the Delaware legislature “required DP&L to be responsible for a detailed planning process . . . that would satisfy

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<sup>23</sup> *Id.* at 8 (emphasis added).

<sup>24</sup> *Id.* At 9 (emphasis added).

its standard offer service obligations in terms of *reliability* and *cost* to consumers.”<sup>25</sup> Yet, Delmarva has, as evidenced by its evaluation of the bids submitted under the RFP, placed very little value on reliability in its review of the bids and, more precisely, the impact of adverse reliability events on costs to be borne by consumers. The Independent Consultant notes that Indian River Units 1 and 2 may be retired (including in connection with the construction of an IGCC facility) as highlighted in the Interim Report.<sup>26</sup> Yet, Delmarva has not considered this in their modeling of the all-in costs to consumers of the bids submitted under the RFP. NRG supports the IC’s call for an examination of the reliability impacts of a shutdown of these units and the resulting potential reliability value of the projects bid in the RFP. Further, when undertaking this analysis, Delmarva must consider the fact that only available when needed (as opposed to intermittent) resources can truly be valued for reliability purposes.

Another portion of the IC’s report highlights certain modeling flaws inherent in DP&L’s consultant’s model used in the IRP process.<sup>27</sup> One such flaw is that the model always assumes perfect equilibrium between supply and demand. In other words, the model largely eliminates the volatility typically associated with electric power prices through an assumption of equilibrium that does not account for the “real world” elements involved in the retirement of old capacity, the development of new capacity and the impact of changes in load beyond design limits. This, of course, makes it easier to conclude that long-term power purchase agreements are, *per se*, unnecessary. However, an agreement with a baseload generator that can provide reliability benefits on the basis of a price linked to a relatively stable fuel source can be used as a tool to hedge against the volatility which is “assumed away” by the Delmarva model. Yet, Delmarva gives

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<sup>25</sup> Interim Report at 6.

<sup>26</sup> *Id.* at 3.

<sup>27</sup> *Id.* at 17-21.



effectively no credit to this important characteristic of NRG's IGCC project in its evaluation.

One portion of the IC's Interim Report, with which NRG has concern, calls for DP&L to issue a new request for proposals from the entire region involving all sources or, potentially, just renewables.<sup>28</sup> The IC has acknowledged that reliability is a paramount issue under EURCSA.<sup>29</sup> The IC would be compelled to agree based on its own Interim Report that merely focusing on cost would not meet the requirements of EURCSA. Yet, it recommends a regional process which would likely result in projects that only have cost benefits (assuming that in-state generators have been given ample opportunity to bid in the current RFP) to DP&L's SOS customers without benefits related to reliability derived from "new iron in the ground" in DP&L's service territory. In fact, this issue would be exacerbated where a new process focused on intermittent renewables generation like wind.

## VI. CONCLUSION

NRG commends the IC for recognizing the diversity of the three proposals and for rightfully highlighting the difficult tradeoffs between environmental benefits, technology innovation, reliability, feasibility, cost impact on ratepayers, and price stability.<sup>30</sup> Delmarva in its report makes clear the priority placed on cost effectiveness and its concerns about the impact on its ratepayers. Nonetheless, Delmarva must take seriously the Delaware legislators' strong endorsement of technological innovation and environmental benefits even as it expresses its objections to the RFP Process. NRG urges

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<sup>28</sup> *Id.* at 40.

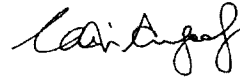
<sup>29</sup> *Id.* at 6.

<sup>30</sup> Hearing Comments at 971.

the PSC and the other State Agencies to continue their efforts to ensure that each bid receives the consideration which it is due.

Respectfully submitted,

NRG ENERGY, INC.

A handwritten signature in black ink, appearing to read "Caroline Angoorly", written in a cursive style.

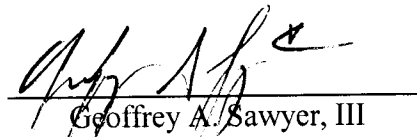
By: Caroline Angoorly  
Senior Vice President, Northeast

April 6, 2007

**CERTIFICATE OF SERVICE**

I, Geoffrey A. Sawyer, III, Esquire, do hereby certify that true and correct copies of the foregoing **SUPPLEMENTAL COMMENTS OF NRG ENERGY, INC. ON REPORTS ON EVALUATION OF BIDS RECEIVED IN RESPONSE TO REQUEST FOR PROPOSALS FOR COMPETITIVE POWER SUPPLY BY DELMARVA POWER & LIGHT COMPANY** were caused to be served on April 6, 2007 upon the following in the manner indicated:

<b><u>BY FEDERAL EXPRESS (scheduled delivery April 9, 2007)</u></b>	<b><u>BY E-MAIL</u></b>
<i>Original and Ten Copies</i>  Ms. Karen J. Nickerson Delaware Public Service Commission 861 Silver Lake Boulevard Suite 100 Dover, DE 19904 Attn: PSC Docket No. 06-241	    E-mail Service List for PSC Docket 06-241.

  
\_\_\_\_\_  
Geoffrey A. Sawyer, III